2 30

peculiarities

150 000

collapsed

2 60

1/2 2 60

130

1/2

DBR-CG-002074

DBR-CG-002076

DBR-CG-002078

[illegible] 5.8 [illegible]

[illegible] 30 [illegible]

[illegible] 50 edel [illegible]

[illegible] 112 [illegible]

C: 58

58 [illegible]

[illegible] 112 [illegible]

[illegible] 30 [illegible]

66.4 [illegible]

[illegible] elins column

[illegible] 1.66

DBR-CG-002079

1 [illegible]
9. [illegible]

[illegible] audiences
[illegible] 15
1. [illegible]
2. [illegible]

IV A

[illegible]

ext [illegible]

(c) p 65
[illegible]

e del:

p 78

Dan p. 74

a/k

DBR-CG-002085

[illegible]

Dan: [illegible]

Dan

[illegible]

environ

edel

1 mil

500

edel

sa : 2 6

2000

cycle

ira

sets

mathematical

DV

DV

hat

(B)

module

(C) DS

Dan:

DKS

govt

wps

govt 24 prof

wps

column/hca

~~thomas~~ edel

DBR-CG-002098

exec session
C+L no

Board – no

Bill 20,

Fri

~~Janet Waly~~

~~Beth Boyer~~
~~215/762-8450~~
~~re: mtg~~

~~Dave Friedl~~
~~330-4015~~

~~Mark~~
~~981-9108~~

~~Tess~~
~~Re C70s~~

DBR-CG-002100

150

DBR-CG-002101

C:\WINDOWS\TEMP\11091.WPD

Transcription of Shorthand Notes of Carol Gordon - AHERF Audit Committee, October 15, 1997

Board Trustees present: J. David Barnes, Ralph W. Brenner, Esq., Anthony M. Cook, Douglas D. Danforth, Richard H. Daniel, Harry R. Edelman III, Ira J. Gumberg, W. P. Snyder III, W. Bruce Thomas.

Other Invitees present: Sherif S. Abdelhak, William F. Buettner, Carol Gordon, Lynn R. Isaacs, Donald Kaye, M. D., David W. McConnell, Leonard L. Ross, Ph. D., Barry H. Roth, Anthony M. Sanzo, Diane K. Schrecengost, Nancy A. Wynstra, Esq.

Transcriptionist's note: Prior to the official opening of the meeting, Mr. Abdelhak said he had some comments to make to the Trustees which were not for the minutes, therefore, the following discussion did not appear in the official minutes of the meeting.

Abdelhak: Update to Trustees about what we are doing. Referred to audited statements, results from operations, significant deficit. Investment income has been helpful. Compounding problem in the Delaware Valley starting the last fiscal quarter with fair amount of reduction in revenue from Medicaid. We are trying to estimate what reduction in Medicaid reimbursement is - estimated between $30-60 million, coupled with $2 million from Medicare as a result of the Balanced Budget Act. Results in the last quarter suggested we take aggressive action. When we looked at the numbers in the first two months, they appeared to represent a continuation from the last quarter, so I asked all of our people to effect some cost reductions. In the last two days, we have removed $130 million out of our expenses in the Delaware Valley. The bulk of those were personnel adjustments, 1800 jobs. Anticipate that we will need to do further reductions throughout the system because there doesn't appear to be an end to revenue rate reductions. It is my judgment we will need to focus our attention in Pittsburgh in the next month or so. Anticipate taking out another $25-$30 million from the Pittsburgh expenses. All of the fundamental revenue reductions have put an enormous stress on our cash flow. We are working diligently to fix that by fixing the operations, rather than borrow the way through it. At the last Finance Committee meeting, there was a discussion at my request to use some of the internal funds for a sale-leaseback arrangement we were contemplating for the Delaware Valley, and I think that has happened and we have used the funded depreciation at AGH to maintain Accounts Payable at a reasonable level. We are taking a beating in the papers in Philadelphia because of the magnitude of the adjustment and the impact on the economy, but I don't know that we could choose any other course. Anticipate that the University of Pittsburgh will have a similar action taken. Mr. Chairman, we are not about to give you a snapshot of the first three months.

PR-RS COMPUT 00082

GOR0000025

The numbers are preliminary, and we are working on the statements. Possibly (?) Focused in the Delaware Valley. Two issues we were dealing with last year were the University and AIHG and fixing those. I think we have a fix for the University to have it break even, and I am confident we have a fix for AIHG to reduce the subsidy to half of what it was last year. The bulk of the adjustments we have made were in the hospitals. Some adjustments in corporate services here. No one has complained about the decrease in compensation. Need to improve in the Delaware Valley so that they can repay the advances from funded depreciation. Want to reduce the Accounts Payable to 60 days. I have asked to keep the small vendors paid. Reasons: (1) Medicare effect is roughly $30 million in the Delaware Valley; (2) Medicaid - state has removed $1 billion out of Medicaid payments in the Delaware Valley. State has increased our cost of insurance. Increased CAT fund premium by $20 million. Revenue has disappeared. There has not been a decrease in work, but there is no revenue HMOs are the reason.

Danforth: I understand the Medicaid and Medicare funds come from federal government to state and the states disburse them.

Abdelhak: Medicaid is paid through an intermediary and it is usually an insurance company. It was usually Blue Cross in Philadelphia. Now it is Blue Cross in Western Pennsylvania. No restrictions on how to use the federal money. Managed care was to be submitted by bids. Balanced Budget Act eliminated this requirement. They are probably spending about ½ as much as last year. Could be as much as $100 million less of reimbursement. We minimized the damage as much as we could.

Daniel: Why is it worse in the Delaware Valley?

Abdelhak: Competition; in Pittsburgh, there is only one Medicaid managed care company, and we own 1/3 of it. In Philadelphia, there are five. ...talked about all insurers in the Delaware Valley being way behind in payments. There is a tremendous backlog. Other measures: no capital acquisitions, no more leasing, have sold a lot of our assets and leased them back, have put an end to that. What is happening in the Delaware Valley will come to Pittsburgh.

Gumberg: In terms of funded depreciation in AGH, do you think that the reimbursement and the pay back is within a relatively short time?

Abdelhak: Any monies that are taken are being paid cash to AGH; investment income is not being used!

Sanzo: Question: Will this current situation have a measurable impact on the Information Services initiative under way in AHERF?

Abdelhak: No, the responsibility of David, Nancy, Dwight Kasperbauer, Tom Chakurda, and the people in the support areas - the total budget is $120 million. $50 million of that is in IS, and David recommended, and I agreed, that we not touch that. We saved $26 million of the balance. There are a lot of people reporting administrative expenses at 24%. Ours are below 20%.

McConnell: Ours are 12.25% of the total.

Abdelhak: I cannot look at any of my people to say they didn't do something. If anyone didn't do something, it was me for not having a better handle on the extent of the damage in the Delaware Valley. Everyone has been responding as well as I could expect them to.

Barnes: I have spent a lot of time with David and Sherif on this issue in the past couple of months. When it became apparent that the operating plan was way off track because of the revenue shortfalls in Philadelphia, they really got at it. I see this conversation as the opposite of a gloomy conversation. Over the past two years, the quality of our earnings was very poor. We tried to outgrow the issue by building utilization, etc., but it became apparent that we had to take some big bites, so this is good news. Bad news, however, is that although we would like to think that this is the end of the battle, and I am encouraging them to get this behind us by December 31, I am worried that this is not a trend that started in March of 1997 and will end in September, 1997. I believe it is a trend that may go on for several years until enough hospitals get squeezed out of business or the politicians reexamine what they are doing going forward. This is more likely a yearly thing rather than the end of this situation.

Abdelhak: This is true. We are getting you some material to show you on an annual basis of the Balanced Budget Act. I have instructed some of our people to (1) close our clinics, both here and in Philadelphia. This is not reflected in the adjustments. In AGH, the clinics eat up $30 million. No announcements, quietly and quickly. 30/30. We cannot sustain them. How many people were served that way? 500,000.

Dan----: Will affect the people who cannot afford it.

Edelman: Will that over-use the ER?

Abdelhak: State wants surplus in their budget at the expense of the institutions.

Edelman: All medical systems are affected the same way?

Abdelhak: Yes, ask Bill.

Buettner: Agree. This is industry wide. It is in the Delaware Valley first, but it will move to Pittsburgh.

Abdelhak: No one on my staff is responsible. The only thing we could have done if we had understood more fully the effect of the mandatory managed care is that we would have taken this action three months ago.

Barnes: For years we have emphasized quality and were not hyper about costs, but now what is happening under the pressure of new legislation is that there are more fights for survival. Need to win the fight for survival. Also, very confident that with these actions we will restore our strength and increase our liquidity and increase our fundamentals as far as our financial position.

Edelman: Why did we have to take the lead on the layoffs and clinics? Shouldn't we try to let someone else take the lead on the clinics?

Abdelhak: Unfortunately, while we act and react quickly and make decisions quickly, there is no evidence that others will do the same, so as I said, for them we will have to bleed. It is a judgment.

Barnes: Number-wise, we have to get at this. Last couple of years have not been as good as they could be. We don't have an option.

Edelman: Both actions will be depicted properly?

Abdelhak: I know there is no possible way you could reconcile the gravity of the action. It will take us some time. They have historically been the places where we have let the residents practice. Now the state has published regulations that there must be a physician present and you would go to (....?...) otherwise. It won't give the residents the experience they need.

Transcriptionist's Note: At this point (12:50 p.m.), Mr. Barnes opened the meeting, declared there was a quorum present, the minutes were approved, etc. with no other comment.

Also please note: Other individuals generally spoke more quickly than Mr. Abdelhak during a presentation and it was often not possible to take word-for-word notes. In those cases, I usually made a note of the topic and filled in the detail later from agenda information when transcribing my notes. What I have transcribed below in the following sections is what I wrote during the

meeting.

III. B. Management Discussion and Report on Fiscal Year 1997 Audited Financial Statements and Related Reports for AHERF

McConnell: Have audited financial statements and appropriate debt compliance letters. Will explain our format. (1) It has become clear over the years that as AHERF has grown in size that in the external market we have the legal Obligated Group that have asset pledges or debt pledges but the rating agencies look to the overall organization. (2) Cost; used to provide different sets of audited financial statements each year. Reduced audit fees substantially this year by going to one audit report. As we were completing this issue, Bill Buettner had some concern that the accounting profession considered our past as technically special reports. Special purpose rendered them null and void, so we decided to go to one set of statements. From a preparation standpoint, it seemed better. Reviewed the mergers for Allegheny Valley and Graduate. Audit done quickly and cleanly. We readjusted the balance sheets so we could gain Medicare recapture, and by doing that with the mergers I could not give you a comparative balance sheet. These are in draft form before final opinion. One large outstanding item: with respect to Graduate merger into AHERF, we had certain costs in terms of debt compliance It is a legal negotiating matter. I expect no problem other than working through the (...?...) in the next couple of weeks. Can not have opinion filed until we receive the waiver.

Buettner: Referred to page 12 of the agenda. As David mentioned, the opinion is not signed. We completed the work on September 4; waiting for the waiver from the trustee and when we receive that, the note will be dated in October. We will issue a clean opinion saying agree with Generally Accepted Accounting Principles and agree with management's conclusion. Footnotes: David mentioned acquisitions. To put acquisitions in perspective, size totaled $670 million of assets and liabilities that are reflected in the financial statements that came in. Because of the purchase accounting methodology that is used, the assets and liabilities come on but the capital stays the same. So when you compare the position of the organization, you are adding liabilities because of the acquisition but not adding capital. Reason makes sense. Recapture is substantial but you have to follow this type of accounting. David mentioned timing of these acquisitions were layered throughout the year so if you look at page 14, income statement, you have the (...?...) companies included but only few months of these (...?...) companies reflected in the financial statements. Under purchase accounting method, you start new when a new entity comes on board. He was going to bring up what he already discussed: investment income $85 million. When you look at your overall net income, that translates into a $60 million loss in operations. Consolidating information in the back will provide with details.

Gumberg: I noticed that on page 2 we have nominal working capital. Are you concerned about only $8 million working capital, and I know we are working on paying payables quickly?

McConnell: Obviously, we spend a lot of time managing that on a daily basis. $367 receivables, large number, have always talked about that to this committee in the past. If you look at that number and look at the annualized days and look at the last quarter's revenue (62 days in Accounts Receivable), our goal was to get it under 70. From a process standpoint, because the numbers are so large, we are attempting to negotiate special payment provisions with the payors, that is, Independence Blue Cross is probably one of the slowest payors we have. We told them they owed us $30 million more than we thought they did. So they said send us the claims. 150,000 outstanding claims. Collapsed their system. Trying to get half the money. We are trying to get predictability from cash flow. Computer systems of insurance companies aren't capable of what we are trying to do.

Snyder: They were definitely trying to hold back.

McConnell: ....talked about peculiarities of billing system and reasons for rejecting: name, birth date.

Abdelhak: We are $60 million away from 60 days in Accounts Payable. We anticipate fundamental adjustments totaling $130 million will yield half of this this year. Plus, we need to catch up on a lot of this garbage. Combination is how to repay the funded depreciation and pay the Accounts Payable.

McConnell: I think the downsizing of this week, in terms of cash, really won't materialize until January. So we need to do something in the meantime.

Cook: System wide, our days outstanding are in the low 60s and Sherif said we are $60 million away from 60 days.

McConnell: From an Accounts Payable standpoint. From receivables, we are at 58 days.

Cook: Where is the Delaware Valley?

McConnell: AUH consolidated is at 66. St. Christopher's has been a large problem at 96. As of June, put them together. Delaware Valley consolidated is 73, which is as good as it has been in the last four to five years.

Dan----: Asked about when the receivable hits the books.

McConnell: ....gave answer. Talked about giving the bill. Talked about difference in billing in Pittsburgh vs. Delaware Valley, i.e., Blue Cross problems. Blue Cross of Western Pennsylvania does a better job.

Abdelhak: What are the balances of the AGH funded depreciation on June 30 that was not used for payment of payables? .....little less than $50 million.

Buettner: $58 million.

Abdelhak: $58 million left behind.

McConnell: We have continued to focus on bad debts. We have put a lot of emphasis on working these aggressively. Page 30, bad debt expense was $66.4 million. Have compared to other organizations in industry - compares bad debts to gross revenue and we are at 1.56 compared to gross. The national average is 5.8.

Edelman: Asked where the $112 million shows up. On a consolidation statement, where does the intercompany $112 million show?

Buettner: It will not show on a consolidated statement but it will be on the consolidating schedule; the number in the elimination column which reflects that AHERF has an obligation from one of its sister corporations.

McConnell: We have certain audiences for the financial statements. (1) the Audit Committee, (2) Debt markets, and Bill has agreed that he needs to indicate that some of the money is in intercompany receivables. Resolution approved.

III. C. Fiscal Year 1997 Report on AHERF Internal Controls

Buettner: Turn to Page 65. There is a short letter in draft form that deals with our report on internal controls. AHERF needs this for filing Medicare Cost Report. No material control weaknesses. Letter is similar to that in the past. Approved.

IV. A. Coopers & Lybrand Management Letter and AHERF Management Response

McConnell: This is the detailed letter that is not required to be reported externally that we ask Coopers &Lybrand to share with the Audit Committee to give us areas of guidance to focus on. All CEOs and I have responsibility in various areas. Letter is here; management has been in agreement with the findings of Coopers & Lybrand. Bill agreed that Coopers is okay with our responsibilities. Questions?

Philadelphia?

Cook: Page 70 - in talking about the lease commitments Sherif commented on earlier. $432 million on the books; additional $100 million in commitments - have they been executed? What percentage of that $100 million falls into the lease commitment for this current fiscal year?

McConnell: $35 million pooled leasing program negotiated with General Electric. That program is in place. Available for our use. Second piece is a $65 million lease program which is the energy plan for the Delaware Valley. Project reduces cost greater than the level of the price of the program. We are working on the lease transaction with the accounting rules. In general, leases do support routine operations.

Edelman: There seems to be certain items that recur - Page 78 - purchasing systems observations. Hard for me to understand why some of these things can't be taken care of.

Buettner: It has been an item for the past couple of years.

Edelman: Seems to me the answer is that we are still trying.

McConnell: Fair observation.

Dan----Page 74. Revenue in Accounts Receivable - I have a feeling that herein might lie some other areas where cash is not coming in because we can't get the receivables properly managed. And I am not sure the management response is really responsive to the issue.

Abdelhak: We will be taking care of some additional action. The system that has been in place in Pittsburgh has worked very effectively in reducing their Accounts Receivable in a substantial way. We are working diligently to get the same system implemented in the Delaware Valley. Other change is that a couple of years ago I set the registration turned over to the Billing Department., and we will do the same thing in the Delaware Valley - we will turn over the front end to the Billing Department.

Dan----: How soon? Today?

?: ....talked about seeing comments year after year.

McConnell: Going back to where our comments were last year on receivables, problems from

the past have substantially improved.

Buettner: Agrees that significant improvements have been made. From our perspective, positive steps have been taken. The registration process of itself - I can't tell you if that would reduce your receivables, but clearly if you have a strong registration process it makes everyone's job easier. Principal difference is the quality of the input. Dramatic improvement.

Buettner: System-wide, the best place for improvement is the registration process in the Delaware Valley. Also in the Delaware Valley, the third party payors have been very difficult to deal with.

Abdelhak: Talk about purchasing system. First, there are no unauthorized purchases. They don't get paid. If anyone doesn't go through our purchasing system, they won't be paid. If you notice here the issues are: Are the right people approving the purchase before it is done? Procedural issue. We update our file of signers annually. Some departments didn't update them, hence there is a discrepancy. Procedural issue. Then, if you notice here, the fact that the credits are not handled and being resolved on a timely basis - it has to do with us having basically taken a function in the Purchasing Department because it was easier to do and use prudent judgment in separating responsibilities and have Accounts Payable handle so they don't have the same knowledge, they don't have the same flow of action. Finance has nothing to do with this. We are making a correction next year in the format to show who is the lead person to handle it.

Edelman: Some of these look like fairly garbage items.

McConnell: Yes, some of them are that, and if that is all they are finding, great. If that is the worst that they find in terms of an overall control environment, if this is where we are at, some people have done a good job.

Abdelhak: With all due respect to Mr. Edelman and to David, the one area which is new which is very important is the risk contracting, because there are big bucks involved. We have one million lives rather than 500,000, and that is a lot of money. I would not classify this as garbage.

Edelman: Said some of these items are garbage. Would like to see them gotten rid of in one cycle. Some of them are very important.

Gumberg: Regarding risk contracting - stop loss - is that a mathematical insurance to protect us?

Abdelhak: Yes, and we have excellent rates. Rates were less than we could get from insurer. At the next meeting, let's try to devote some time to risk contracting issue.

Cook: Are we on track with the implementation schedule for the HIMSYS for AHERF?

Abdelhak: We are six months behind because of the Year 2000.

Cook: Does that impact all of the subsets?

Abdelhak: Under the circumstances, with the staffing reductions in the Delaware Valley, one of the applications (inpatient nursing documentation) may be phased in in the Delaware Valley rather than implemented fully at Hahnemann. Principal problem is testing and training. Trying to find streamlined ways to get that done. Have developed computerized module that people can learn from and looking for people for testing to insure system is functional and meets specifications.

Dan----: There was discussion in there about client managed systems. What about the risk if they don't get it done?

Abdelhak: Ask Tony, Don Kaye, and Barry - they are at risk.

IV. B. Coopers & Lybrand Required Communication to the Audit Committee

Buettner: If you have any questions; the letter is required to be issued by the firm every year. Eight or nine points we have to communicate to you.

IV. C. Report on Fiscal Year 1997 Audited Financial Statements - Canonsburg General Hospital and Subsidiaries

No questions.

IV. D. Coopers & Lybrand Management Letter and Canonsburg General Hospital Management Response

(Nothing was said.)

IV. E. Review of Audit Services Activities from March, 1997 to Present (Pittsburgh and Delaware Valley)

Schrecengost: Summary of the work of the Audit Services Group. We have summarized individual reports and include Executive Summary. Any specific questions on any items--I will be happy to answer them or could provide copies of the reports.

Barnes: Anything of consequence?

Schrecengost: We have been focusing on areas related to Compliance. We are under tremendous pressure from the government with their initiatives related to fraud and abuse. Articles on Columbia/HCA, and I think the work of the Audit Department regarding education and operational activity - we have encouraged people to be proactive in these terms and will not be reactive in terms of any letter that comes in from the government. Have a process for bad billing. We are self-disclosing and paying back things. See those as sensitive areas.

Snyder: How many in your department?

Schrecengost: 24 professionals across the state.

Snyder: You are fully staffed?

Schrecengost: Yes.

Edelman: How do you select risk assessment?

Schrecengost: That is discussed in the March meeting, and I will devote some time to that at the next meeting. Explained ways of risk assessment.

McConnell: Also leave time for the Committee to respond to any questions.

Barnes: Any more questions? Executive Session?

Buettner: No.

Barnes: Board?

No.

Barnes: Management?

Yes.

McConnell: We are recommending Coopers & Lybrand be reappointed as external auditors

once again. From a quality and cost standpoint, they have done a good job. They have announced an international merger with Price Waterhouse. Price Waterhouse is out of that business on the East Coast. I do not know the direction the firm will take. Bill does not know who will be leading the office. Bill said it is the normal merging work.

Snyder: Diane, have you had the proper cooperation?

Schrecengost: I think we have the optimum audit coverage in terms of Internal Audit's ability to look a little bit deeper. I think we work very well together and I have no difficulty in terms of access. They are very involved in the Internal Audit activities. They rely on us on a control that they use to modify their work.

McConnell: Doesn't mean we always agree with them.

Resolution approved. Meeting adjourned, 1:50 p.m.

cg:11091

EXHIBIT 8

Oct 10, 1994 Audit

audit 4/3/95 10/94 Finance

finance 4/3/95

agh res mgmt 6/15/95

Finance 6/23/95

~~agh res mgmt 9/25/95~~

Audit 10/16/95

Steno Notes

80 SHEETS 6x9

EYE-EASE®

GREGG 26

0 73333 36746 1

National® Brand 36-746

DER-CG-002272

DENNISON STATIONERY PRODUCTS COMPANY
FRAMINGHAM, MA 01701
Made in USA

12^{00}

f/s

entities

15

DBR-CG-002296

Finance

0001-88/4

enormous.

DBR-CG-002298

p 10

94

p 11

p 11

10

44

10 2 6

35

mbca

waivers

3 2:1

strategy

4.5

p. 20-23

p. 13

72

ah 6

swings

ira p. 14

2 d×T

21

hu

53/ #

33/) hu

p. 20

4 hu

2½/ 4 mip hosp

2.8) 7.5 4 hu 9

L 30.

new

thrust

cons.

new:

strategy

ie

so 2. obliged

predictable.

DBR-CG-002304

[illegible]
[illegible]
migrate [illegible]
[illegible]
[illegible]
[illegible]
[illegible] migr[illegible]
[illegible]
[illegible]
[illegible]
[illegible]
[illegible] slashed
[illegible]
[illegible]
[illegible] cdm.
[illegible]
[illegible]
[illegible]
[illegible] dessert.

[illegible]
[illegible]
jdb [illegible]
[illegible]
severe [illegible]
[illegible]
[illegible]
[illegible]
ebert [illegible]
[illegible] x
[illegible] ceos
[illegible] 0
[illegible]
[illegible] 06
[illegible]
[illegible] ceos
Bulk [illegible]
[illegible]
[illegible]
#[illegible] 670
[illegible]

Barnes

new p.14

Verifiability 14

Appetite

ology

Bar

Barnes

DBR-CG-002308

C. f: 965 [illegible] | II A

[illegible] | – 1989 [illegible]

[illegible] 200 [illegible]

[illegible] 965 [illegible]

[illegible] 4.7/ 90 ∠30 [illegible]

[illegible] 26 [illegible]

[illegible] p. 130 [illegible]

D. [illegible] 275/ [illegible]

[illegible] 12 [illegible]

[illegible] hilt

[illegible] f = 99 [illegible]

p. 135

B. tab B1

indigent

non

hosp

hosp.

DBR-CG-002312

enormous

amo

$135 ½

new

Barnes

32 drug

DBR-CG-002316

II C dtc

D.

Deviated

geog

diverse

diverse

new p 141

214 in [ ]

DBR-CG-002318

II E

Bar B. [illegible]

[illegible]

p. 152 [illegible]

[illegible]

nim B. DV [illegible]

[illegible]

[illegible] Baxter [illegible]

II F [illegible]

[illegible]

45 [illegible]

26 [illegible]

[illegible]

DBR-CG-002320

new

#

diversification

strategy, 6.

adj 1°

II # 6

= 63,

Transcription of Shorthand Notes of Carol Gordon - Finance Committee, October, 1994

NOTE from transcriptionist:

( ) means I did not write anything in that spot at the meeting.

____________ means I cannot read it now.

____?____ means I do not know who said it.

Meeting began 12:00 noon.

I. A. Minutes approved.

Financial Statements

Abdelhak: Pofit has been derived from investment income, not operating income. We are working to change that condition, but during the year we experienced another $15 million (?) in revenue reductions. We have moved quickly to reduce expenses. Some of the expenses that have been accrued like the restructuring costs are important considerations, but we will leave them behind us. If you look at the consolidating statement on Page 33, where we are encountering the negative results are in AHERF, DHG, and in the insurance entities, and that is what AHERF was organized for.

McConnell: When we completed the merger with Hahnemann, the actual control by AHERF of Hahnemann began at July 1. From that perspective, the operating results were not consolidated with AHERF. For future balance sheet comparative purposes, we consolidated the balance sheet on June 30 for operating results so the balance sheet on Page 11 includes Hahnemann into AHERF for 1994. Therefore, for this year, we are comparing apples to apples. Page 30 is a high level summary of impact of Hahnemann on the AHERF financial statements. This balance sheet has been taken from an aggressive balance sheet (Hahnemann) to a conservative balance sheet.

Abdelhak: For the most part, there is no question what the potential financial impact on AHERF would be when any health reform bills are enacted. The challenge is to reduce our costs and to continue to attempt to seek revenue. In terms of seeking revenue, seeking health practices, and long term contracts, our intent to provide revenue for the entire system. This will not be a process that will end in the future because the pressures are enormous.

McConnell: Page 10. Coopers' opinion letter, which provides AHERF with a clean audit opinion for FY 94. Page 11, we changed auditors this year for Hahnemann to Coopers. Page 11, Consolidated Balance Sheet which includes Hahnemann. Although they had a long term debt component, they had cash in investments. When you look at the current ratio, we have about 2:1 as an organization overall. Talked about strategy to pay down debt. Talked about Hahnemann debt. With the restructuring of the Hahnemann financial statements, Hahnemann had $44 million loss, $10 from base operations, $35 restructuring costs. We would have had to refigure the debt for Hahnemann. The debt is long term because MBIA gave us waivers for the debt. Talked about loss in operations, $4.5 million restructuring costs. Wrote off IVF Australia on AGH books and some other one-time costs. Voluntary retirement program. Highlights on Page 13, _________ column, Hahnemann had $72 million of unrestricted equity to the AHERF balance sheet. Any questions?

McConnell: Talked about reasons for changing from Deloitte & Touche. They would have given opinions on statements by Hahnemann management. We needed a more conservative opinion to match the way Allegheny works. Have included audited financial statements of all obligated groups. Coopers has given us debt compliance letters on all of them. Pages 20-23. Audited numbers were very close to what management projected for the year. We had no swings.

Gumberg: Page 14, Dave commented cash flow and borrowings of $21 million.

McConnell: This statement has line item specific AHERF information with summary information for Hahnemann included. Cash flow from investing the $53 million, (   ) is AHERF, $33 million for Hahnemann. Page 20, talked about balance sheet and how much was Hahnemann, $2½ million was MCP Hospital. $2.8 and $7.5 was Hahnemann as of June 30.

Neuwirth: David, will you share general thrust of auditors' letter to management?

Abdelhak: Generally speaking, there were no major issues with regard to the controls, procedures, or accounting practices.

Neuwirth: Asked about in general terms if he would share some of the strategy for facing the future, i.e., reimbursement and high costs.

Abdelhak: We are obliged to manage our costs, but it is not predictable. For the most part, the level of adjustment in costs is so significant - Some examples: There is no question that we will migrate all billing to Pittsburgh. We would put all payroll

and all accounting. We have migrated all Information Services. All Legal services. All functions that we have considered general overhead is what we have slashed as much as possible. Talked about restructuring the billing system, CDM. Talked about restructuring the support functions in Philadelphia - unions are going to desert. We have typically not been a fat organization to begin with.

Barnes: Many people don't realize how severe pressures are on the medical delivery system.

Ebert: How are you managing to get expenses down?

Abdelhak: There are individual CEOs within each organization; I work very closely with them. I believe responsibility is shared by all of our CEOs. Bulk of our costs are people, and we have taken people out in large numbers, 670 last year. CEOs said they are given targets and we will make them, or whomever takes our place makes them. The organizations are at different levels of maturity, and that is the verifiability of revenue which means don't tell us what you hope you will have but only what you are sure you will have. And we start there with our revenue projections. However, that is not necessarily the methodology used at all of our organizations.

Barnes: Talked about the way the industry is going. Although it sounds like an impossible problem, it is not that unbelievable a number.

Neuwirth: Page 14. Talked about $14 million.

Abdelhak: We have been adding to our equity every year. We need to control our appetite for capital. We have to contain that somehow.

Barnes: We need to move on.

Accepted.

I. C.

McConnell: As part of our management due diligence review of Hahnemann, we found that they had a letter of credit with two of their supported organizations. It is required, as part of Hahnemann debt, to clean this up. We need your ratification after the fact.

Moved and seconded. Approved.

I. D.

McConnell: Hahnemann had $27.5 million lines of credit. Ask that you consider the resolution. We found that these lines could be restructured to reduce the price. We would like to continue the lines at their present levels to extend our flexibility at Hahnemann.

Approved.

II. A.

McConnell: In 1989, system established Charity Care Endowment. Only a small portion of income in first five years could be spent so that we could grow the endowment. $4.7 million as of June 30. Fairly aggressive asset mix. Page 130 is our actual rate. Mike Martin and I are reviewing whether we want to continue to have this with Mellon. Results are not the best, but are not significantly different than the market.

Hilton: Asked about the use of the excess for charity care.

McConnell: Yes, that is the intent in the future.

Abdelhak: We expect to continue to let it grow. We do not use it now.

II. B. Tab B 1.

McConnell: We have summarized two different proposals that affect the funding of health care. Health Security Act is trying to reduce medical expenses. Since we have high indigent loads, we are likely to get hit at a high level. With health reform continuing to change, we can not tell you what these proposals are going to do to the organization. Page 135, talked about DRG rates. I don't think either will be implemented, but we need to reduce costs.

Abdelhak: In addition to the analysis, we have been very active in trying to lobby against this. We have joined the other academic health centers in the state and nation in attempting to lobby for non-academic health care centers. Hospitals have been lobbying against health reform because they are trying to finance the reform on the backs of the hospitals. In my view, they don't nearly understand what there (   ). There is a potential for legislation being enacted without the full awareness of the effect on the economy in January. The only way we can absorb anything like that is to eliminate 20% of the jobs. How can we provide care

safely is a separate question. It is impossible for you to know what these specific proposals mean to us.

Sanzo: These numbers are large - note this is just Medicare. In Pittsburgh, the new Blue Cross contract for AGH in Pittsburgh pays us about 15% less than last year. This is only 1/3 of our payors.

Abdelhak: In addition, that is our rates, and there is also the volume and when you combine both rates and volume, the potential effect is enormous and volume is going down. Regarding volume, we have had substantial overutilization. We will need 30% less beds. Hopefully, we will be managing ourselves in a prudent way to ride out an adjustment in the market. We are trying to stay ahead of the changes by making sure we know what it means.

Neuwirth: If these proposals would call for a reduction in order to stay solvent, are there any proposals for this?

Abdelhak: When we did the strategic planning within the model, we included what we thought was most likely, and based on that, we need to reduce our costs by 10% this year and hold our costs to that number. Most of the restructuring that occurred varied across the system. We need to manage our costs on a unit system. Look at numbers on page 135 - half of that number was in DRG payments.

Barnes: Serious problem, do not know how to solve it. DRG charges trying to recognize more complicated cases. Good news.

II. C.

McConnell: Recommended this last year. Iqbal Paroo is the Allegheny representative on the Board of Directors. We are going back to see how things will progress. Seems to me they are on track. Too early to determine success or failure. Iqbal does spend a significant amount of time making sure it is moving forward. We knew this was a long term venture; it appears that everything is on track.

Neuwirth: Page 141. Asked about retained earnings. First four in ( ), last two positive.

____?____ Will report annually.